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Foreign Aid: Understanding Data Used to Compare Donors

Larry Nowels
Specialist in Foreign Affairs
Foreign Affairs, Defense, and Trade Division

Summary

There are various views on how to total U.S. spending on foreign aid and how U.S. transfers compare with those from other major donors. For the United States, the size of the foreign aid budget is frequently measured in terms of annual appropriations approved for international assistance programs, using either the Foreign Operations Appropriations bill total, or a slightly modified calculation that includes foreign aid funds enacted in appropriation measures other than Foreign Operations. In comparing the United States with other international aid donors, the most common source of information is the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). There are significant scope and methodological differences, however, between U.S. appropriations figures and those used by the DAC. This report explains those differences and discusses other issues related to the debate over how much wealthy countries contribute to international development and what share U.S. resources represent.

The humanitarian tragedy caused by the Indian Ocean tsunami in late 2004 elevated the discussion of a broader issue regarding how much the world's wealthiest nations contribute to foreign aid and disaster relief, and how United States' aid compares with the transfers of other countries. Because of varying definitions of what constitutes "foreign assistance," there is frequent confusion over what is the precise U.S. foreign aid budget and some controversy over how to compare U.S. levels with those of other donors. A fundamental point of misunderstanding stems from the substantial differences in both scope and methodology between what Congress annually appropriates for foreign assistance and how the OECD's Development Assistance Committee (DAC) presents data comparing aid performance of 22 donors, including the United States.

U.S. Foreign Aid Budget

Many regard the annual Foreign Operations appropriations bill, together with relevant supplementals, as the most reliable figures to use when assessing how much the United States spends on foreign aid. The Foreign Operations measure combines most

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economic, military, and multilateral assistance accounts into a single spending bill, and is a useful “proxy” for the size of the American foreign aid budget. Nevertheless, it does not represent the precise total of U.S. foreign assistance for two reasons. First, the Foreign Operations measure includes funding for the Export-Import Bank (Eximbank), an export promotion program that is not defined by the Office of Management and Budget (OMB) as “foreign aid.” Secondly, Foreign Operations does not include appropriations for international food assistance programs that are funded in the Agriculture spending bill.

In Table 1, Foreign Operations appropriations have been adjusted to correspond to the more precise OMB accounting of “foreign aid” funding, excluding the Eximbank and adding international food aid. In most years, “foreign aid” appropriations are somewhat larger than amounts provided in Foreign Operations spending bills. This is because funding for international food aid usually runs higher than resources for the Eximbank. Further, some assistance programs, such as international HIV/AIDS activities funded by the Centers for Disease Control, are not counted in either “foreign aid” or Foreign Operations appropriations.

Official Development Assistance

While Foreign Operations appropriations, or the adjusted figures shown in Table 1, are the most common ways within the U.S. government for measuring the size of American foreign aid, they represent a methodology that is unique to the U.S. budgeting system. To overcome discrepancies and inconsistencies among donor budgeting processes, the Development Assistance Committee of the OECD, has established common definitions and methodologies for member countries to report amounts of Official Development Assistance (ODA). For over 30 years, the DAC has been regarded as an authoritative source of government international aid spending and the standard to use in comparing assistance provided by the world’s major aid donors.

Table 1. U.S. “Foreign Assistance” Appropriations
(billions of dollars)

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
TOTAL	14.03	12.83	12.71	13.35	15.64	16.36	16.33	16.66	24.92	39.89	23.67
Non-Military	11.01	9.56	9.40	9.97	12.13	11.37	12.31	12.43	18.52	33.60	18.17

Sources: House and Senate Appropriations Committees and CRS calculations. Amounts include Foreign Operations appropriations, less Export-Import Bank funds, plus international food assistance provided in Agriculture spending measures. FY2003-FY2005 include large supplementals for pre-Iraq war requirements, Iraq reconstruction, aid supporting the global war on terror, and tsunami and Darfur humanitarian relief.

Table 2. U.S. Official Development Assistance (ODA) Disbursements
(billions of dollars)

CY95	CY96	CY97	CY98	CY99	CY00	CY01	CY02	CY03	CY04	CY05
7.37	9.38	6.88	8.79	9.15	9.96	11.43	13.29	16.32	19.00	—

Source: Development Assistance Committee, Organization for Economic Cooperation and Development. CY2004 is preliminary and subject to change.

But as can be seen by comparing foreign assistance appropriations figures with ODA totals for the United States published by the DAC (Table 2), there are significant differences. In all years, the difference in total U.S. appropriations and U.S. ODA is several billions of dollars, and in a few years, appropriations are roughly twice the level of ODA. Several factors explain these differences:

ODA excludes military aid. The DAC collects and reports only non-military, grant and low-interest loan assistance to developing nations. U.S. foreign aid appropriations include large amounts of military aid, ranging between \$3 billion and \$6.4 billion over the past 10 years. In Table 1, an estimate of the amount of non-military appropriations is shown, figures that more closely align with ODA data. Further, of the roughly \$22 billion appropriated for Iraq reconstruction in FY2003 and FY2004, approximately \$2.6 billion for Iraqi national guard and military equipment and training will not be counted as ODA. For this reason alone, ODA will always be substantially less than total U.S. foreign aid appropriations.

ODA represents net disbursements. Official Development Assistance is reported as net disbursements, a method that is closest to the U.S. budgeting term of “outlays.” U.S. appropriations represent the amount of money committed in a particular year, much of which may not be disbursed, or “outlaid” for several years. This means that ODA figures will usually lag a year or two behind actions taken by Congress in foreign aid appropriations. For example, in FY1996 foreign aid appropriations declined from the previous year, while the U.S. ODA level rose by 27%. The ODA figure most likely reflected a large appropriation in FY1995 for multilateral development bank (MDBs) contributions that did not disburse until calendar 1996. Conversely, the significant increases in foreign aid appropriations beginning in FY2003, including large sums for Iraq reconstruction, are only partially reflected in the ODA disbursement data for calendar 2003 and 2004, and will not likely have a large impact until calendar 2005.¹ The net disbursements measure takes into account recipient repayments to donors for previous ODA concessional loans which are subtracted from new ODA expenditures for a particular year. Because the United States has maintained a largely grant aid program for over two decades and has forgiven most debt owed by many aid recipients, the net basis for reporting U.S. ODA is not a significant factor. For other donors, however, it may have a substantial impact.

ODA excludes aid provided to higher-income countries. Economic aid extended by the United States and other donors to countries with per capita GNPs of more than \$9,205 and to transition economies in Central Europe and the former Soviet Union are not counted as ODA. Consequently, U.S. foreign aid appropriations of over \$1 billion per year since 1991 for Russia and the former eastern bloc have not been included in ODA figures. Moreover, in 1997, because of its rising income level, the DAC moved Israel out of the ODA list of countries. This partially explains the sharp drop in U.S. ODA disbursements in CY1997, and between \$600 million and \$1.2 billion in annual economic assistance to Israel has not been counted as ODA in more recent years.

¹ For purposes of ODA accounting, only \$1.5 billion of Iraq reconstruction funds disbursed in calendar 2003, with another \$2.9 billion included in calendar 2004. The balance of the approximate \$15 billion non-military portions of Iraq reconstruction will disburse in CY2005 and beyond.

ODA includes some funds not counted in “foreign aid” appropriations. Certain, relatively small amounts of international programs funded out of domestic and defense appropriations rather than Foreign Operations appropriations are counted as ODA. For example, humanitarian, disaster, and civic aid included in annual DOD appropriations (\$59 million in FY2005) and Department of Health and Human Resources and the Centers for Disease Control appropriations for international HIV/AIDS, malaria, and tuberculosis (\$607 million in FY2005) are included in ODA figures reported to the DAC.

ODA reports data on a calendar year, not fiscal year basis. The timing for passage of Foreign Operations measures can have a significant impact on amounts reported to the DAC. If a Foreign Operations bill is enacted several months after the beginning of the new fiscal year,² but passed on time (before September 30) the following year, it is possible that rapidly disbursing appropriations, such as contributions to the MDBs, from two fiscal year appropriations will be included in a single ODA calendar year total.

Comparing ODA Transfers of Major Donors

DAC statistics published annually compare donors in a number of ways: total dollar amounts; aid as a percent of gross national income (GNI); aid dollars per capita; grant composition; multilateral contributions; income level of recipients; purposes of aid; etc. The most commonly cited comparisons are the total volume of ODA disbursements and ODA disbursements as a percent of GNI.

The fact that the United States, as illustrated in Figures 1 and 2, is the leading donor in terms of volume, but the last donor in terms of GNI percentage, sharpens a continuous debate over whether the U.S. provides an appropriate share of international ODA. Those who argue that the United States is the largest provider of foreign assistance emphasize the volume of ODA disbursements as the most relevant indicator, pointing out that U.S. ODA in 2004 represented 24.2% of the \$78.6 billion in total DAC disbursements. Moreover, the 2004 figures, they emphasize, do not yet fully reflect significant new U.S. foreign aid initiatives for HIV/AIDS programs and the Millennium Challenge Account that will push ODA levels higher in the coming years.

They further reject the exclusive focus on public or government-transferred aid, noting that private transfers — in the form of direct investments and aid from non-governmental organizations (NGOs) with funds raised through charitable contributions — have become far more significant sources of development financing over the past two decades. In 2003 (the most recent year available), the DAC reports that private flows of Official Development Finance (ODF) from DAC countries totaled \$192 billion, compared with \$69.7 billion from public sources. At the very least, those calling for consideration of charitable donations made by private citizens to NGOs for overseas activities maintain that they should be an additional indicator of a country’s international development commitment. According to DAC figures, the United States accounted for \$6.3 billion of a total of \$10.2 billion in grants by private NGOs in 2003. (Many analysts believe, however, that the DAC figures significantly underestimate the amount of U.S.

² Foreign Operations appropriations the past three years have been signed into law between December and February, several months after the beginning of a new fiscal year.

private donations.) Adding these figures to the total volume of ODA would push the United States even higher as the leading donor. Some also believe that personal remittances of immigrants working abroad should also be included in calculations of financial flows to developing nations. The Department of State estimates that in 2003, remittances from workers living in the United States totaled \$28 billion.

Moreover, some believe that there are many in-kind and intangible contributions that are difficult to quantify in monetary terms. The United States plays a particularly large role in some of these activities, especially where American military assets are used for transportation, logistical support, and security of aid workers in emergency and conflict situations. They point to the Indian Ocean tsunami disaster in which the U.S. military played a critical role in the delivery of urgently needed relief supplies. Much of the expense associated with the military's efforts will not be reflected in U.S. ODA figures. Aside from the money issue, some policymakers emphasize that a discussion about aid burden sharing should not be about the quantity of ODA. The focus, they contend, should be about the quality of development programs and government policies, especially in the area of trade, that provide benefits to poor countries far beyond the value of ODA.

Figure 1. ODA Volume from Major Donors, 2004

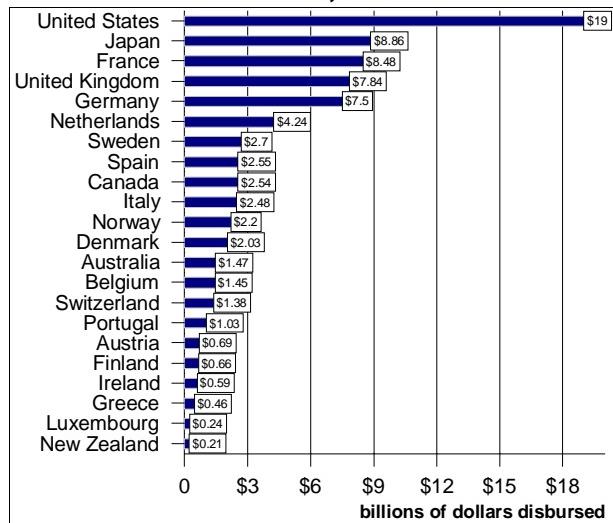
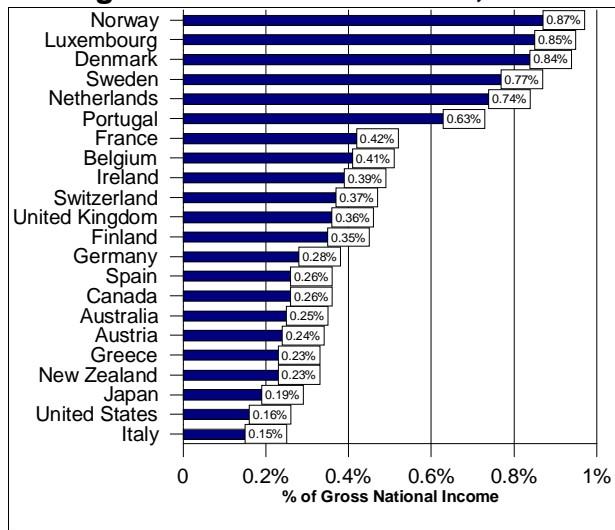


Figure 2. ODA as % of GNI, 2004



Those that argue that the United States should provide more foreign aid generally regard ODA as a percent of GNI as the best measure of U.S. foreign aid. On this basis, as a share of national wealth, the U.S. ranks second to last among 22 major aid donors. Even if private donations through NGOs are added to the total volume, in 2003 the percent of GNI would increase to 0.21, but still place the United States in the 21st donor position. While acknowledging the importance of private direct investment in the promotion of economic growth in poor countries, these analysts point out that private flows are even more unpredictable than public transfers and are distributed in a relatively uneven pattern with large concentrations in more advanced economies, such as India and China. Private direct investment in low-income countries, they point out, has fallen over the past decade. Likewise, some of these critics

do not believe that worker remittances should be included in foreign aid calculations due to the random nature of these transfers and their lack of integration into broad-based development strategies. Remittances generally come from wages paid to immigrants worker and should not be seen as charity, according to this view.

Those who advocate higher levels of U.S. foreign aid further contend that if the volume of ODA is used as a point of comparison, it is more appropriate to measure American ODA against Europe as a whole rather than individual European countries. Using this comparison, European Union (EU) countries that are members of the DAC, having a comparable national income (\$10.48 trillion) with that of the United States (\$10.98 trillion), provided more than twice the amount of ODA in 2004 (\$42.9 billion vs. the U.S. \$19 billion). Using somewhat different terms — ODA per capita — the EU, with a population 31% larger than the United States, disbursed about \$112 per person, compared with \$65 per American.

Some analysts also assert that since the Bush Administration has added international development as a third “pillar” of U.S. national security, together with defense and diplomacy, the growing importance of aid to American national interests should be reflected in higher resource allocations. These critics commend the Bush Administration for committing to significantly higher foreign aid spending and launching the HIV/AIDS and Millennium Challenge Account initiatives, but believe the United States can and should do more. If international development is a key element of U.S. national security, they argue, the private sector should not be responsible for meeting these important American national interests in many parts of the world. For them, the key question is not the U.S. ranking as a donor, but whether the United States government is spending enough on development aid to achieve its stated national security goals.

An Alternative Comparison Method

For the past two years, a private U.S. think tank — the Center for Global Development — has compiled an alternative way to analyze the impact of the policies of 21 wealthy countries on developing nations. The Commitment to Development Index takes a far broader approach than using ODA and private flows data to compare government performance by examining policies on trade, investment, the environment, migration, security, and technology, in addition to foreign aid. Based on the Center’s most recent release in mid-2004, the United States ranked tied for 7th among 21 countries analyzed. The United States, by this measure, scored high on trade and migration policies that promote development, while scoring low in the areas of aid and the environment. (The complete results of the Center’s study can be found at [<http://www.cgdev.org/>].)

Beyond the analytical results of the Center’s study, it further illustrates the complexity of measuring the impact of U.S. and other governments’ policies on promoting development and reducing poverty that go well beyond the comparison of ODA data, whether it be based on volume or as a percent of national income.